



1917



Economic Conditions Governmental Finance United States Securities

NEW YORK, JUNE, 1917.

Preparing for War.

THE past month has been one of active preparations for war, and interest has centered at Washington. Legislation for creating an army by selective conscription has been passed, and measures for increasing the resources and regulating food supplies have made progress but are still under deliberation. The eminent special commissioners representing the governments of Great Britain and France have been in conference with our government, and after numerous public functions at which great warmth of feeling for the allied cause was displayed, have taken their departure. The commissioners from Italy are here and special representatives from Russia are understood to be on the way to this country.

The organization of the Council of Defense has been further developed by the appointment of numerous sub-committees for the various branches of industry which will be required to furnish war supplies, with a view to securing the greatest possible efficiency in meeting the government's wants, and of concentrating industrial operations upon the work of most importance to the country. For example, the distribution of coal will be taken in hand, so that the essential industries will have the first call on it. If a ship is waiting in port for coal it will get the first coal available, no matter whether it is coal consigned to it or not.

A census is being taken of the stock of tin and other essential supplies and if the stock is short the most important needs will be satisfied, owners dividing up stocks with competitors as necessary. A willing spirit is everywhere shown.

Judge Gary is at the head of a general committee on steel and iron products, with a half dozen sub-committees under it. The appointment of General Goethals as director of the ship-building program has resulted apparently in a modification of the plan for wooden ships and an expansion of program for steel ships. It has been assumed that the construction of steel ships was necessarily limited by the fact that the steel mills have their plate capacity sold up for nearly

a year ahead, but if government orders are given the preference this does not count. The total plate capacity of the country is estimated at around 5,000,000 tons, and new capacity, under construction, is probably 15 to 20 per cent of this amount. If the making of plates for other purposes is curtailed and the mills are relieved from existing contracts, plates will be available up to the limit of the labor that can be had for ship construction, and General Goethals estimates that 3,000,000 tons of shipping can be built in 18 months. It is scarcely necessary to say that the steel mills do not profit by this substitution of government orders for private orders, as the latter pay much the better prices.

The Liberty Loan.

The placing of the \$2,000,000,000 loan is the most important task in the program of war preparations at this time. It is not out of place to say now that the country was not ready for the offering when it was announced. The public mind had not been adjusted to the billion dollar standard, and did not readily comprehend the magnitude of the task and the broad distribution that would be necessary. Nor was there a clear understanding of the source from which the funds must come and of the steps which were necessary in order to make them available.

The following estimate prepared by the Treasury Department, and based upon the banking resources of the several Federal reserve districts, has been very helpful in giving a definite mark for each section of the country. The estimate for the several reserve districts is as follows:

| | | | | |
|---------------|-------|---------------|----|---------------|
| Boston | ..... | \$240,000,000 | to | \$300,000,000 |
| New York | ..... | \$600,000,000 | to | \$750,000,000 |
| Philadelphia | ..... | \$140,000,000 | to | \$175,000,000 |
| Cleveland | ..... | \$180,000,000 | to | \$225,000,000 |
| Richmond | ..... | \$80,000,000 | to | \$100,000,000 |
| Atlanta | ..... | \$60,000,000 | to | \$75,000,000 |
| Chicago | ..... | \$260,000,000 | to | \$325,000,000 |
| St. Louis | ..... | \$80,000,000 | to | \$100,000,000 |
| Minneapolis | ..... | \$80,000,000 | to | \$100,000,000 |
| Kansas City | ..... | \$100,000,000 | to | \$125,000,000 |
| Dallas | ..... | \$40,000,000 | to | \$50,000,000 |
| San Francisco | ..... | \$140,000,000 | to | \$175,000,000 |

It has taken time to organize the working forces, but that has been done, and in all sec-

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tions of the country an effective canvass is now being made. The regular bond-selling houses have given their costly organizations wholly over to this loan, without charge. Outside of the larger cities, where the bond houses have taken the lead, the banks are generally in charge of the organization, and cooperating most earnestly. Employers of labor, besides subscribing for themselves, are usually arranging to aid their employees in doing so.

As an example of the effective work being done in some localities the following report from Pittsfield, Massachusetts is given:

Pittsfield, following an active publicity campaign, closed down all business for one hour last Friday, by a proclamation from the Mayor, and devoted this period exclusively to obtaining Liberty Loan subscriptions. Teams were organized comprising about 1,200 men and women to thoroughly canvass the business and residential districts, as well as all of the manufacturing industries. In the Pittsfield district, with a population of approximately 47,000, subscriptions were obtained from 9,335 people, totaling over \$2,216,000. The apportioned amount for this territory was \$1,620,000. Pittsfield's largest industry employs about 7,000 people, and subscriptions were obtained from 4,960 of these. In one department 317 girls subscribed for \$17,000.

This "Liberty Bond" will be the first interest-bearing security ever owned in many homes. It will introduce to many persons the sensation of having an income from savings, and of having a piece of property which is a definite basis of credit, upon which money can be realized at any time. Once that position has been achieved, the natural impulse will be to strengthen it by adding to the accumulations, and if this experience should make us a nation of bond-buyers the wastes of the war would soon be recovered.

Excellence of the Investment.

As this campaign proceeds more emphasis is laid upon the excellence of the investment. Although $3\frac{1}{2}$ per cent. seems like a low rate in many sections of the country, it is to be remembered that this is the minimum rate. If any subsequent loan is issued at a higher rate, these bonds will be convertible into the new loan. This is a proper provision for the protection of the persons who come forward promptly to assist the government. Without it, if subsequent issues were made at a higher rate the equivalent of a premium would be paid to those who had held back. The law gives assurance that all who subscribe to the government's loan will be placed upon the same basis. If the war is a long one it is not improbable that the rate will have to be higher. And there is one further probability of profit: the interest rate will have to be such as will sustain the bonds at par during the war, in order to induce further subscriptions, and if the bonds are worth par during the war they will go well above par when the war is over. On the whole the outlook to a subscriber is for a very good return, when the quality of the investment is considered.

Loan Must be Raised from Income.

The loan must be raised from the current income of the country. This is a most important fact to keep clearly in view. Some readjustments of investments by selling there will be, but every sale requires a buyer, and the aggregate of investments can only be increased out of new profits and savings. It is not to be expected that people will have money lying idle with which to buy these bonds. They must be urged to subscribe and apply their future incomes to the payments. The government accepts payments in installments, the last of which falls on August 30th, and if these come too rapidly the local banks must make loans to suit the situation.

This obligation upon the banks to lend on the bonds to assist in their disposition must not, however, be stretched into an obligation to carry the loans indefinitely. Loans should be based upon the ability of subscribers to reduce them from time to time and finally extinguish them. It must be remembered that the banks must be relied upon to handle the current business needs of the country, and that other government loans are coming.

Economic Conditions.

Discussion over the necessity and advisability of economy continues, but gradually the unescapable facts of the situation are compelling a readjustment of business. There is an axiom in physics that no two bodies can occupy the same space at the same time, and somewhat analogous to this is the proposition that no person can spend his income twice at the same time. He cannot at one and the same time give his income over to the government for its use, and also go on spending or investing it as usual himself.

On the face of the situation this would seem to be axiomatic, but it is not quite that. By the employment of credit it is possible to do something that for a time looks very like eating your cake and having it too. You can spend your income as usual, and borrow your contribution to the government.

This appears so simple that many people regard it as a solution of the problem. "Business as usual" appears to be possible and just the thing. But there is more to it. Expenditures involve purchases, and getting possession of certain tangible things. You have turned over certain purchasing power to the government, and in your effort to continue using that power yourself you now meet the government in the market as a competitor. The supply of goods is no greater than before; the supply of labor is no greater than before; but the demand is increased. You are determined to put up a building, and you meet the government's agent at the steel mill. Who shall have the steel?

Evidently there is a limit upon the effort to do business as usual, a physical limit fixed by the capacity of the industries. Business must be adapted to the new conditions which the war creates. The ideal adaptation would be to give the government every man it can use advantageously, every ton of steel that it can put into a gun or a ship, every yard of cloth that it needs for the army, and supply every other requirement, first; then do business as usual on what is left.

The best guide the average man can take for his expenditures is to keep before him the needs of the government for money. Let him compare the use the government will make of it with any use he is contemplating; and let him remember that having turned any part of his income over to the government, he cannot go on using it himself without creating an inflation of credit which will diminish the value of his aid to the government. Our help to the government must of necessity include self denial and a readjustment of our expenditures. An attempt to overcrowd the industries will create an inflation of credits, wages and prices which will make a dangerous situation after the war.

General Business Conditions.

The course of business has confirmed the opinion that war meant an increased stimulus to the industries, modified only by the necessity that under the pressure of more business than they can handle there must be contraction in some quarters in order that there may be expansion in others. Luxury trades are suffering, as inevitably they must, but that only means a shift of employment.

The great industries of the country, with steel leading, never before were under such pressure. Apparently the government requirements are proving to be more of a factor than was anticipated; at any rate private consumers are competing so vigorously with each other for the remaining capacity that prices are still on a rising scale. The announcement that the British government has discontinued work upon the construction of a great new munitions factory for the reason that they would be able to buy more finished munitions in the United States shows the effect of granting credits and indicates that there is no end of this class of business except in the limit of our capacity. The departure of one engineering commission to Russia and another to France, and the announcement that several thousand picked railway men are to be sent to France to put the railways in order, are indications of enormous demands from those quarters.

Inquiries in the steel trade indicate an enormous booked up business. Most of them now are for the first half of 1918, but there is willingness to contract even into 1919, although on

the basis of present prices this is highly speculative and steel-makers discourage it. It is common opinion, however, that the iron and steel business is in for several years of full production, and the largest people in the trade are proceeding upon this theory.

The weak spot in the industrial organization is the railroads. Nearly all the industries could do more if they were not hampered in getting necessary supplies and could get their products promptly out of their way. This is particularly true of the handling of coal and coke. The railroads are undoubtedly doing better, but the volume of traffic is in excess of their capacity. They need equipment and facilities of every kind, but perhaps their most pressing need is for locomotives, for the strenuous service of the past year has been hard upon motive power. Railway officials are putting forth every possible effort, operating all the railways as one system, so that surplus capacity on any line is brought into use. The volume of traffic actually handled is much beyond any past record. The gross earnings, as shown by Dun's Review, for the first two weeks of May were 11.3 per cent. higher than for the same weeks of 1916, and as rates have not been raised in the meantime this means a corresponding increase of traffic.

With the advance of spring, retail trade has improved and there is little to suggest any curtailment on account of high prices. Reports have been current of the effect of economy in the textile trades, but whatever curtailment there has been in style goods has been quite lost in the demand for staple goods and for the government's wants.

The resumption of outdoor work increases the demand for labor, and there are complaints of shortage everywhere. Farm wages by the month are higher than ever before, made necessary by the competition of the town industries.

The good prospects now for the crops gives encouragement to hope that living expenses will at the worst be no higher next winter, and may be lower. If so the strain in the industrial situation will be in some degree relaxed.

All agricultural products at present are at very high prices. Hogs at western markets keep close to the \$16 mark, choice steers at Chicago, \$11.25 to \$13.65, spring lambs, \$17; all of these figures per hundred weight. Butter and eggs are going into cold storage at the highest prices every known. Wool has been selling in Montana up to 50 cents per pound, and a few sales at 52 cents have been reported.

Financial Conditions.

The money market is firmer, under the influence of prospective demands upon the banks in connection with the government loan. Time money is practically on a 5 per cent. basis,

basis, although some loans are made at 4½ per cent. Call money is 2½ to 3 per cent. closing the month at the latter figure.

The situation is quiet and without disquieting features. The Federal reserve banks held on May 25th, \$47,587,000 of bills discounted for member banks, against \$35,043,000 on April 27th last. Holdings purchased in open market were \$52,708,000 on May 25th, against \$71,400,000 on April 27th. These figures show that there has been practically no encroachment upon the reserves of the system as yet.

The amendments to the Federal reserve act which have been pending some time, affecting reserves and calculated to accomplish a large transfer of gold to the Federal reserve banks, are still in conference between the two houses of Congress, but are expected to be acted upon in a few days. The Senate voted in a new amendment, providing for a collection charge upon checks, to settle the vexed controversy over that subject and remove the chief objection to the reserve system on the part of country banks. The House has voted instructions to its conferees to accept the Senate amendment, but there seems to be some question yet as to the action of the Conference Committee.

It is understood that there will be an important movement of State banks and trust companies into the system as soon as the pending amendments have been adopted.

Bank Deposits.

It is natural bankers should have some misgivings as to the effect upon their own deposits of heavy subscriptions to the government loan. In the long run it is perfectly certain that bank deposits will be generally increased. This is an inevitable result of a general increase of loans. The proceeds of the loans will be disbursed by the government practically as fast as received, and will quickly find their way back to all localities. To the extent that reserves are drawn down temporarily by the payments, banks must expect to borrow of their correspondent banks in the cities or of the Federal reserve banks. This is no time to stand on the policy of near borrowing.

The experience of other countries indicates that savings deposits will not be greatly disturbed. In Canada savings deposits increased from \$722,000,000 on December 31, 1915 to \$982,000,000 on March 31, 1917.

The authority of the Federal reserve banks to re-discount for member banks customers' paper secured by government notes or bonds, will be found in paragraph 2, section 13, of the Federal reserve act. This paragraph provides that upon the indorsement of a member bank a Federal Reserve Bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions, which may or may not be secured by staple agricultural

products or other goods, wares, or merchandise. The law then states that "such definition" of eligible paper shall not include notes, drafts, or bills of exchange drawn for the purpose of "carrying or trading in stocks, bonds, or other investment securities *except bonds and notes of the Government of the United States.*" This is equivalent to an affirmative declaration that a Federal Reserve Bank may discount a note, draft, or bill of exchange indorsed by a member bank which is issued or drawn for the purpose of carrying or trading in bonds or notes of the United States.

Gold Shipments to Japan.

The continued movement of gold from this country to Japan has been the subject of considerable comment of late, having amounted to about \$45,000,000 in the last eight months, and increasing of late.

The balance of trade between this country and the United States is undoubtedly in favor of Japan, but it is thought that the movement is not wholly on this account. British shipments of gold to this country have been made largely for the purpose of keeping money conditions here easy, in order to facilitate the placing of loans, and have been made with the understanding that the bankers of this country would discourage exports to other countries. It has been felt that the gold supply should be conserved so far as practicable for devotion to war purposes. American bankers have sacrificed profits to this end, and in view of the common purposes of Great Britain, Japan and the United States it has been felt that there should be a community of interest in this matter. The United States has undertaken an immense task in financing the war, and although its gold stock is very large, it cannot be too large for the burden that may be placed upon it. It is pleasing to know that this view is appreciated in Japan, and that steps will probably be taken to invest the accruing balances due Japan in this country, either in American or British securities, thus curtailing the gold movement.

Crop Conditions.

The outlook for food production in this country has very much improved during May. Although the spring has been backward the conditions on the whole have been favorable for giving the crops a good start. Winter wheat has revived so that a much better showing is expected from the next government report, and spring wheat conditions are nearly ideal. On account of winter-killing the crop of winter wheat will be under that of last year. The acreage in spring wheat in the principal spring wheat territory is no larger than last year's, but if weather conditions remain good the yield will be much larger than last year. The most critical time for spring wheat is when it is ripening. If no bad luck attends it

then the total yield of wheat may be 740,000,000 bushels, against 640,000,000 last year. Another favorable turn in the wheat situation is that the high prices early last month, followed by ordinary prices, stimulated everybody to sweep the bins and rush the holdings to market. It is a proverb that an astonishing amount of wheat always comes out under such conditions, and a highly regarded Chicago authority now estimates a carry-over of 50,000,000 bushels. There is considerable wheat in Australia, the long voyage having interfered with its movement to England, and recent prices started shipments from this source to the United States.

The acreage in rye, barley and flax has been notably increased, and in corn is likely to be immense. The promise for fruit is good, garden planting has been extraordinary, soil conditions are excellent, and notwithstanding the cold weather we venture to believe that the present outlook is for the greatest production of foodstuffs ever raised in this country.

Of course there are people who will say that they knew it all the time, and that there was never any occasion to sound an alarm. The truth, of course, is that they knew no more about it than any one else. The crop is not assured yet; the risks of weather and insect pests have yet to be passed, and if the highest promise is fulfilled there will be none too much. At best the wheat crop will be 250,000,000 bushels under that of 1915, and wheat is what is most wanted for export. The people of this country must eat more corn bread and oat meal. There is yet time to increase the acreage in buckwheat and beans, both substantial articles of food, and there should be no let-up in the efforts to make it as large as possible. After these should come the forage crops, to keep up the flow of milk and save the feeding of grain to stock through the winter. There ought to be a million silos built and filled before the growing season is over. They will not only help to win the war but to make living cheaper after the war.

The outlook for the cotton crop is for no better than a moderate one. The acreage probably will not be above that of last year, the agitation for a larger acreage in food crops having headed off an increase which was predicted to result from the high prices. The cold spring has made the plant backward, and at this time it does not appear to be thriving. Exports of cotton are not quite up to last year, but home consumption is heavy, the demand for cotton goods is strong, and raw cotton is around 21 cents per pound.

The Wheat Market.

Last month in the wheat market was one of the most exciting in the history of the grain trade, prices touching the highest figures ever

known, and the situation culminating in action by the leading exchanges to restrict trading and close out existing contracts. Naturally, there was great public interest in these events and a vast amount of uninformed and excited comment upon them. Whenever prices go up it is assumed by many people that speculation is responsible for it and that nothing is required but action by the government, preferably by hanging somebody, to bring prices down to comfortable levels again. The effect of such talk, particularly when it comes from persons of high position, is to mislead and inflame the public, and probably aggravate the situation.

The situation in the wheat market has been an extraordinary one this spring, as the visible supply diminished, new crop prospects deteriorated and the export demand became seemingly more imperative. The May option had been the one commonly traded in since last fall, and large quantities of wheat had been sold for May delivery. The agents of the allied governments were the largest buyers, and their purpose was to take the wheat. Of course there were speculators on that side of the market, but contrary to the common understanding it is apparent that most of the professional traders had been on the selling side. They had believed there would be wheat enough to go around and had sold short, or, in other words, had sold what they had not yet required, expecting that before May had passed the wheat would come into sight and that they could obtain it for their contracts. So far as the mere statistical situation was concerned they were right; it is now evident that there was wheat enough in the country to fill the normal demand, but they made at least one serious miscalculation. They overlooked another set of speculators, the housekeepers. The alarming reports about the winter wheat crops and the food situation in general, with the extraordinary efforts over the country to impress upon the public the importance of practicing economy in food supplies, and of growing more food, had an effect not anticipated: it started the housekeepers to laying in unusual stocks of flour. Grocer's stocks were cleaned out, the grocers bought heavily of the millers, and the millers went into the market and bid the price of cash wheat to a high premium over May delivery, and took the wheat.

Market Oversold.

As the market got into May, with practically no wheat in store for deliveries, the short-selling speculators awoke to the fact that they were in a dangerous position, and started to cover their contracts. That was the one thing remaining needful to send the market kiting. The situation became abnormal and dangerous. Without having been planned by anybody the market was virtually cornered, although cornered is hardly the word for a market which has no stocks; it was oversold, chiefly to the allied governments.

The railroad blockade was a factor in the situation. Grain could not be had to make the deliveries. A large number of the leading commission houses refused to take purchasing orders, hedging operations became impracticable. A number of the leading exchanges took the situation in hand by fixing maximum prices, and a meeting was called to be held in Chicago on May 15th. At this meeting representatives were present from eight of the leading grain exchanges of this country and from the Winnipeg exchange, also a large number of representative dealers and millers. This meeting approved of the fixing of maximum prices and recommended that such prices be continued and buying restricted to the closing of outstanding contracts until further notice. May wheat in Chicago sold up to \$3.25 per bushel, but the Exchange fixed upon \$3.18 as the settling price.

While the buying of the "shorts" was a factor in the final rise, it is evident that but for their short-selling the market would have gone up some time before it did. The people of this country were buying flour during the winter cheaper than they would have been but for this influence in the wheat market.

With a ban on trading the situation has quieted down. The allied governments changed over a lot of their May contracts to later deliveries, and the outstanding trades have been clearing up. As the season has advanced and the prospects for both winter and spring wheat have improved, and as it became more evident that there is plenty of wheat to last until the new crop is harvested, prices have naturally declined. All of this is accepted by some people as proof that the grain exchanges were responsible for making artificial prices, but that conclusion is not warranted.

At present there is no trading in futures, and no opportunity for hedging either on grain purchases or flour sales. Some changes in this situation will doubtless be made before the crop movement begins.

Functions of Speculation.

The public usually thinks of speculation as buying for the reprehensible purpose of advancing prices, but speculators sell as much as they buy, and play an important part in handling the crops. The latter are harvested in a few weeks, and somebody must carry the products throughout the year until harvest comes again. Nobody can definitely know at harvest time what wheat will be worth during the year to come, for it depends upon various factors yet to be developed. It is in its nature a speculative situation, and the person who undertakes to deal with it is necessarily a speculator. It is his function to make the price of wheat at harvest time approximate as nearly as possible, with allowance for carrying charges and compensation for risks, to what the price will be at the close of the crop year. In doing this he provides a fair market

to the farmer, and assists the community to adjust consumption to the supply from the beginning of the year.

Of course there are those who deny that speculation does this, but their reasoning is not impressive. One writer, commenting recently upon the rise of prices says that the farmers let go their wheat last fall at \$1.50 per bushel, that price being satisfactory to them, and that the rise since then has been beneficial to speculators only. But nobody knew last fall that the wheat crop of Argentina would be a failure, or that nearly one-third of the winter-wheat crop of the United States would be winter-killed, or that the prospective requirements of France, Great Britain and Italy would be as large as they have proved to be. These are factors that did not enter into the \$1.50 price. It was known last fall that the acreage sown to winter wheat was the largest on record, and if the crop here and abroad had turned out more favorably the persons who bought at \$1.50 might have lost money.

Moreover, it is incorrect to represent that the farmers sold all their wheat last fall, and that the speculators kept it all until this spring. The wheat crop was going into consumption during the meantime. There are no figures showing farmers' sales, but the arrivals of wheat at the eleven cities which are called "primary markets," show the rate at which the crop came into sight. These cities are Chicago, Milwaukee, Duluth, Minneapolis, Toledo, Detroit, Cleveland, St. Louis, Peoria, Kansas City and Omaha. These are points where large storage elevators have been constructed and where grain exchanges have been organized.

The receipts at primary markets during each month, the visible supply at the end of each month, and the highest and lowest quotation for cash wheat in each month, from July, 1916, to April, 1917, are shown below:

| 1916 | Receipts Bushels | Visible Supply Bushels | Monthly cash prices—Wheat | |
|---------------------|---------------------|---------------------------|------------------------------|--------|
| | | | High | Low |
| July | 28,730,000 | 40,889,000 | \$1.31½ | \$1.04 |
| August | 48,475,000 | 52,546,000 | 1.64½ | 1.22 |
| September | 51,915,000 | 57,418,000 | 1.71½ | 1.40½ |
| October | 42,181,000 | 60,470,000 | 2.02 | 1.57½ |
| November | 49,069,000 | 63,262,000 | 2.00 | 1.65 |
| December | 24,950,000 | 59,534,000 | 1.90 | 1.42½ |
| 1917 | | | | |
| January | 20,870,000 | 49,659,000 | 2.05 | 1.64½ |
| February | 18,475,000 | 45,130,000 | 2.05 | 1.51½ |
| March | 24,547,000 | 40,119,000 | 2.13 | 1.73½ |
| April | 21,650,000 | 26,756,000 | 2.05½ | 1.96½ |
| | 330,881,000 | | | |

For the week ending May 26, the receipts were 5,491,000 bushels, showing that there is still wheat back in the country and the visible supply on May 28th, higher than on April 30th.

It is true, undoubtedly, that there is a large amount of blind speculation by persons who do not qualify themselves to have an intelligent opinion, but who buy or sell as they would lay a coin on the red or black. These persons are the hangers-on of the business, but the traders who make an honest study of conditions help to make

a stable market in which the necessary business of the country can be carried on.

Hedging Transactions.

The grain-buyers in the towns throughout the farming districts buy the grain from farmers and simultaneously sell it in the speculative markets for future delivery, with a margin to cover the costs of handling, carrying charges and their profit. The capital would not be available to handle the grain or cotton crops promptly if the speculative markets did not afford this opportunity for hedging sales. The people who talk of putting a stop to speculative trading evidently do not understand that without it the farmers would have to carry the crop largely themselves until it actually entered into consumption. This would mean that the price would break, and the spread between fall and spring prices would be greater than now. A trial of that was had in the cotton trade in 1914, when the cotton exchanges were closed and cotton fell to six cents per pound and even lower.

The millers use the speculative market to protect themselves in contracting for the future delivery of flour. A miller will contract now to deliver flour, say in December next. He hasn't the wheat yet, and does not want to buy it now, for he hasn't the warehouse room to store wheat for six months' grinding; furthermore, wheat will be cheaper after harvest. He bases the contract price for flour upon the market price of the December wheat option, and covers his requirement by a purchase of the latter. The miller may be located in Louisville, Fort Worth, Topeka or Bismarck, and his wheat option may be for Chicago delivery, and he has no intention of taking wheat in Chicago, but he is protected on his flour contract. At his convenience he will buy wheat for the flour, selling at the same time his Chicago option. If he is obliged to pay more for wheat than the price on which he made the flour contract he will be reimbursed by a profit on the Chicago option; on the other hand if the value of his option has fallen he will be reimbursed for the loss by a larger profit on the flour. He has been able to conduct his milling business on a definite basis.

The grain exchanges simply afford a meeting place for buyers and sellers, and maintain rules for regulating the business. They facilitate trading, make it easier to enlist capital in carrying the crops and thus broaden the market. The substantial houses in the business desire a normal market, with free play for all the price-making forces. A manipulated or artificial market is dangerous to everybody in the market and seriously interferes with the legitimate functions of the exchange. The influence of bankers is against efforts to control prices, because an artificial market is a dangerous market to lenders; and it may be broadly affirmed that attempts to manipulate the market are always subject to risks

which carry much greater penalties than any which a court of justice would venture to inflict.

Government Control of Prices.

The difficulties attendant upon government control of prices are very much greater than are commonly assumed by those who advocate the policy. The purpose is to keep prices down, and officials charged with administration are likely to think that their duty, but it may be unwise to keep prices down. Prices have a direct influence both upon the rate of consumption and the volume of production, and unless the government undertakes to put the entire population on fixed rations, and to assume a military control of production, reliance must be placed upon prices to bring supply and demand into proper relations with each other. If the consumption of wheat is too high in the early part of the year the supply may be exhausted and there be none in the latter part. If the supply is short this year it is important that the crop shall be larger next year. There are many kinds of wholesome food products which are available for use here but which are not so suitable for export as wheat. Oatmeal is an article which until a few weeks ago has been selling in retail packages at the same price as before the war. That is a normal and proper price for wheat which will spread the supply throughout the year and accomplish such a degree of economy and substitution as will bring these other foods into use and enable us to meet the pressing foreign demand.

A proposal to fix prices in the interest of consumers immediately raises the question of the attitude of the farmer, who is urged to exert himself to the utmost. The farmer has been assured that nothing will be done about controlling the price while the wheat is in his hands, but that the price will be regulated to restrict trading profits after it leaves his hands. According to this proposal the trader is to have the same chance to lose his money that he has had heretofore, but his chance to make a profit is to be curtailed. Of course the effect will be to diminish competition in the business and lower the price paid the farmer. As an offset to this, a minimum price may be guaranteed the farmer, and in view of present conditions this is probably a wise thing to do.

The administration bill, pending in Congress gives sweeping powers in the matter of food control to the President. These will be exercised through an organization, the head of which it is understood will be Mr. H. C. Hoover, who is a man of large experience, and very favorably known through his management of the Belgian relief fund.

Under ordinary circumstances, and with an organization of government employes made up in the usual manner, the presumptions would be all against the proposed elaborate system of control.

The mischief which might be done by bungling amateurs or persons who assumed the task with fixed prejudices against all the existing machinery of the trade would be very great. It is, however, quite conceivable that a man of Mr. Hoover's experience, representing the public authority, may be able to coordinate the existing agencies of distribution so as to form a more effective organization. It makes all the difference whether the powers are to be used for destructive and punitive purposes, as government powers are customarily used, or for constructive purposes. If Mr. Hoover will create a cabinet consisting of the presidents of the grain exchanges of the country, or of otherwise selected high class men representing the grain trade and the milling industry, there is every reason to believe that he will have competent and disinterested advice upon the grain situation, and that benefits will be realized. Representatives of the leading farmers' organizations should be included. The organization for other food stuffs may be created in the same way, and it is understood that this is the general policy which Mr. Hoover intends to pursue. Under it the free play of natural influences will be preserved while a curb is placed upon the abnormal and artificial tendencies which are harmful. The reassurance of the public in order that it may not disturb the market by spasmodic and unnecessary demands, as in recent weeks, is one important result which may be achieved by having a responsible authority over the situation. It is conceivable also that advice from this authority as to economies and substitutions in the use of foods may be valuable, and it may render important service in distributing the purchases for export. The country needs to use its resources to the best possible advantage and the business men of all the trades are more than willing to co-operate with the government.

War Taxation.

The House bill levying new taxes estimated to produce approximately \$1,850,000,000 of revenues has passed that body, and the Senate Committee on Finance has it under consideration. Important changes are indicated.

The agitation in favor of "making wealth pay," of insisting upon "a sacrifice of dollars as well as a sacrifice of blood," of "dragging individual and corporate wealth out of its hiding places," of "making war unpopular," of "saving future generations from the burden of war debts," goes on with a zest which suggests that to some at least of the participants the pursuit is real sport. There is a famous passage from Macaulay in which he gives currency to the opinion that the Puritans of the time of the Commonwealth objected to bear-baiting not so much because it gave pain to the bear as because it afforded amusement to

the spectators. In the present instance there is reason for believing that the plutocrat-baiters are interested less in the revenues that may be produced for the Government than in the extraction of wealth from the rich.

There are sound reasons why an important share of the expenses of the war should be raised by taxation during the war. Most lines of business are under extraordinary stimulus, profits are larger than usual, wages are generally higher, and the employment of the people is very complete. Therefore the country can afford to pay taxes now better perhaps than it will be able to in the years following the war, when it may be suffering from reaction. Moreover, the industrial capacity and labor-supply of the country is occupied with war business to such an extent that it is impossible to go ahead with constructive work in other lines as usual. The current income of the country must of necessity be given over largely to the government, either through loans or taxation, to enable it to carry on the war, and the proportion between loans and taxation should be governed neither by a desire to favor or penalize wealth, but by the probable effects upon the general welfare, through the results upon industry, employment, and the ability of the country to meet conditions after the war. No taxation conceivably possible after the war will be as important to the masses of the people as the possible difference between a state of general industrial activity, with full employment to all the people, and a state of industrial depression such as this country experienced in the winter of 1914-15. Everybody will be able to pay his share of the taxes if the industries are busy, and still have a better living than he will have if the industries are depressed.

Fundamental Misconceptions.

The catch phrases which are used show the same want of comprehension of the fundamental relations of society which is responsible for most of the ill-feeling and friction in the industrial world. The agitation is all based upon the assumption that private wealth is devoted to the owners, and that if it is taken away from them, even though destroyed, nobody else is a loser. The whole idea is that the proposed taxation will reach hidden hoards, or possibly curtail the luxurious living of the rich, with apparently no appreciation of the fact that it will fall upon the industrial fund, the capital available for the support of industry.

Is the public interested in the industrial fund? Is it interested in the production of things for the public market? This is an opportune time to ask if it is interested in the supply and price of things of common consumption. Is the public interested in the development and improvement of industry, in the multiplication of power plants

and the enlargement of industrial capacity and output? Is it interested in the facilities for transportation? If it is agreed that the public is interested in these things then the proposal to withdraw capital in great amounts from these purposes should be considered with regard to its effect upon the public interests, instead of being treated as though the individual title-holders were alone concerned.

A Few Illustrations.

England, who led the world in the application of steam to machinery, has lagged in recent years in the improvement of industrial equipment, largely because of the mistaken opposition of the labor organizations, but with the tremendous pressure upon her working forces occasioned by the war, a new interest has been aroused in labor-saving machinery. A recent number of the *London Times* contains an article reviewing at some length the improvements that have been installed, and also telling of further opportunities to substitute machine power for man power. It said that a great deal of very toilsome labor was still done in England in loading and unloading ore and coal to and from ships by hand shoveling. Most of our readers probably know of the costly equipment installed at our lake and ocean ports where ore and coal are handled in large quantities, but does the public generally appreciate the saving of "toilsome labor," and the saving in money, which is thus accomplished? The editor of the *Marine Review*, Cleveland, is authority for the following statement, given in answer to an inquiry upon the subject:

The loading record made by the steamer William E. Corey on September 8, 1911, has never been broken. On this occasion the Corey loaded 9,457 gross tons of Group 5 ore at the Allouez dock, Superior, Wis., in 25 minutes. The steamer made no shift and the ore was all in the pockets. The time of loading was computed from the time the first spout was lowered to the hatch and ended when the last spout was back in its place at the dock. The Corey arrived at the Allouez dock at 1:40 p. m. Loading began at 2:43 p. m. and was concluded at 3:08 p. m. She left the dock at 3:15 p. m. The total time loading was 25 minutes and the total time at dock and in port was 1 hour, 35 minutes.

The unloading record is still held by the steamer P. A. B. Widener. On August 8, 1912, the Widener unloaded 10,636 gross tons of Pioneer ore at Conneaut in 2 hours and 50 minutes. The steamer began unloading at 2:20 p. m. and finished at 5:10 p. m. The entire cargo was loaded into cars.

The newspapers have recently told of the completion of a new coal pier at Baltimore by the Baltimore & Ohio railroad, at an expenditure of \$2,500,000, with the latest handling appliances. Coal is more difficult to handle than ore, because there is waste from breakage. A description of the new Baltimore pier says:

The structure is of unusual interest because of its capacity, which is claimed to be the largest of any coal pier yet constructed, and because it handles coal by belt conveyors instead of by gravity. This arrangement greatly reduces the breakage by making three feet the maximum fall for coal from the time it leaves the car until it reaches the ship.

At the land end of the pier, which is of concrete and steel, are two car dumpers and next to them are balancing bins, into which certain of the belt conveyors empty. On the pier are four traveling loading towers that can serve as many ships all at one time. They are supplied with coal by sixty-inch belts, having a maximum speed of five hundred feet per minute. Supplementing these are two towers that trim the ships' loads.

The functions of the entire plant are interlocked and controlled electrically by push buttons.

The superintendent of motive power of the Pennsylvania Railroad Company has recently given an account of the progress made in the last five years in the development of locomotive efficiency. Although the discussion is somewhat technical, the facts are extremely interesting, and we quote from him as follows:

About five years ago the most powerful locomotive on the Pennsylvania Railroad for handling freight, was the class H8b. From the diagram you will see that its maximum capacity was somewhere round 1300 H.P. When it was exerting this power, its coal consumption was in the neighborhood of 5.4 pounds of coal per dynamometer horse power per hour. It was most efficient at about 750 H.P., and at that rate of output, its coal consumption was about 3.6 pounds per dynamometer horse power per hour. The application of the superheater to this locomotive resulted in the class of H8sb and was accompanied by an increase in the maximum power to in the neighborhood of 1600 H.P., and at that rate it developed a horse power on 4.25 pounds of coal per hour. Its most efficient point was at about 800 H.P., and at that rate it developed a horse power on 3 pounds of coal per hour.

The introduction of our design of Mikado type locomotive, class L1s, resulted in increasing the maximum power from the figures above, to approximately 2600 H.P., as shown by the curve, and at that point the L1s locomotive produces a horse power on 3.75 pounds of coal per hour. This L1s locomotive has a wide range of high efficiency, and anywhere between 500 H.P. and 1500 H.P. the locomotive will give one horse power on 2.5 pounds of coal per hour.

The other lines on this diagram show the L1s locomotive with a feedwater heater, which is a piece of apparatus we are developing now and which is going to make a further reduction in the consumption of coal per dynamometer horse power by practically one-fourth pound of coal under the economical points of operation above referred to, and we expect to get to the point where when developing between 500 H.P. and 1,500 H.P. the consumption of coal will be 2.25 pounds per dynamometer horse power hour.

It looks as though the range of maximum economy will be increased from 500 H.P. to 1500 H.P., from 500 H.P. to 2200 H.P., and even at the maximum point, the new L1s locomotive, instead of going up to 4.75 pounds of coal, will never go above 3.25 pounds of coal per dynamometer horse power hour. These are estimated figures, but they are what we propose, and expect, to meet during the year 1917.

All of this shows that during the last five years the economy and capacity of our locomotives has been more than doubled, and this has been obtained for an investment in property—insofar as the cost of the locomotives is concerned—that will not amount to a 30 per cent. increase.

The effect on the cost per ton mile of these more powerful locomotives, is greater than that indicated by the economy figures referred to in the foregoing, because larger train units produce economies by themselves, irrespective of the economy from the design of the locomotive per se.

That is one little chapter of the story of research and expenditure which is going on constantly to reduce the cost of transportation, and similar efforts are going on in every field, for improving the industrial equipment which serves the community. The fact that transportation costs and living expenses increase, notwithstanding these efforts, does not lessen the importance, but, on the contrary, is a reason for emphasizing and re-doubling the efforts. The growth of population and the depletion of natural wealth tends to make the support of life more difficult, and the rising standards of modern life make new demands. It is only by improving the methods of production that the former losses can be overcome and the latter demands can be met.

The experience of the Chicago, Milwaukee & St. Paul Railway Company with electrical propulsion on its mountain divisions has been so satisfactory that it has determined to extend this equipment over 660 miles of road. Upon this portion of the line the consumption of coal will cease, and the traffic will be handled by power from the inexhaustive source of running streams. When all the coal deposits of the continent are exhausted, the streams will still be running, and meantime the "toilsome labor" of mining coal

and of shoveling it into the fire-boxes will not have to be performed for this traffic, and when all the water-powers are utilized the life of the coal fields will be greatly extended.

Profits Go Back to Increase Production.

The above examples merely illustrate the actual whereabouts and employment of this private wealth which we are savagely told must be dragged out of its secret hiding-places and devoted to public use.

But of course it will be said that all of this industrial equipment, although admittedly devoted to public use, is only rented to the public, at a profit. The owners are taking toll of the public and increasing their own riches; no thanks to them. But this is not a question of thanks; it is a question of results to the public. No investment can bring profits to the owner unless the public finds an advantage in using it; the profits of the owner are certain evidence of gains to the user. Moreover the profits of the owner, above what are consumed by himself and dependents, are put back into industry, creating new utilities, which in their turn, if successful, yield benefits to the public. It is the profits made by the introduction of new methods which finance more new methods, a cumulative and never ending process. There is no other use to which surplus profits can be applied but to the further expansion and improvement of industry.

Profits Necessary to Progress.

If all the industries of the country were turned over to the government, their functions would be unchanged, and whether the public was benefited or not would depend upon whether they were run more efficiently by the government than they are now. There would still have to be profits, or a surplus of production above current consumption, or progress would come to a stop. New capital from some source must be constantly forthcoming in a growing and advancing community to finance the new ideas that are always incubating and provide the increased capacity that is always required. Development cannot go on without the experiments and expenditures that private capital now pays for. If the government owned the railways it would have to provide for electrification, for the elevation of tracks, the construction of terminals, the production of power, and the increase of equipment, just as the companies do now, and it would have to get this capital either directly from surplus revenues or by borrowing from the public and making the rates high enough to cover interest charges.

The essential question then is whether the private owners personally absorb a larger share of these gains than they are fairly entitled to.

However large profits may be we have seen that all except what the owners consume go back into industry. If all the industries were given to the government outright, and the latter hired the present owners to operate them on salaries equivalent to their accustomed living expenses, the situation would be practically the same as now.

Extravagance Is Offensive.

Are the owners getting too much, in receiving their living expenses as compensation for their services in managing the industries? They sometimes live extravagantly, and wasteful extravagance is offensive for many reasons, although often justified upon the theory that it "makes work." The world doesn't need to have work "made" for it; the great problem of society is to save work and to make work more effective in order that there may be a greater supply of comforts for all. If there was a clearer understanding of the part which savings and investments play in the progress of society, and of the fact that unproductive, wasteful expenditures retard that progress, there would be less of the latter. There is much ignorance upon this subject among both the possessors of wealth and their critics.*

The sense of social responsibility, of interest in the progress and welfare of society, is an attribute of the higher civilization. There is much evidence that it is growing, but it is not yet a dominating influence. The most powerful motive in the activities of men is still self-interest, the desire to win distinction and to command the comforts and luxuries that money will buy. The difference between the private ownership of industries and public ownership, or socialism, is that the former makes use of this motive. The successful owner has the privilege of fixing his own "salary," but over against this is the fact that he renders an interested, zealous, and more effective service than can be otherwise had. Nor is it simply that selfish interest inspires him to greater efforts; there is a freedom, an individual responsibility and opportunity for initiative which is of even greater importance. If all the industries were turned over to the government and it hired the present owners to manage them at salaries equivalent to their present living expenses, the situation would be the same as now so far as the actual distribution of product was concerned, but how long would results be the same? How long would the incentive to progress remain, and when these managers passed away by what system of preference would their successors be selected?

* Readers who wish to pursue this subject further should read "Poverty and Waste" by Hartley Withers.

Progress the Essential Thing.

It is natural to think of existing conditions as fixed and permanent, that there is only a routine of work to be followed, and that the principal problem is that of dividing up the current production. That is the outlook and scope of view of those who complain of the present order. But society does not stand still. It is constantly changing and improving the methods of industry. Managing a railroad is more than handling the traffic that is offered from day to day; it includes constantly re-building and re-equipping it into a better railroad, and that is the principal reason why the government ownership of railroads is undesirable.

The most important work for each generation is that of carrying society forward, making its own additions to the sum of inherited knowledge and giving to its successors something more than it received. This is accomplished in the manner illustrated above, and by using the savings of one achievement for the development of another. There must be savings, profits, accumulations, in order that there may be progress, and the greater they are the more rapid the progress will be. The conspicuous fortunes of the day, which it is common to say should have been distributed in the making or should be reduced or curtailed by taxation, are productively employed in ways permanently beneficial to the humblest members of the community and their children after them.

This whole country has been suddenly aroused to the importance of having an abundant yield of farm products this year. It is interested in the output of every farm, no matter who owns it. We deplore the loss of the wheat crop in Kansas, although we own no land in Kansas. We understand that the wheat crop of the world is a common fund, and that the yield of every locality affects the price of wheat everywhere. Land ownership cuts no figure in the price of wheat except as it affects the production of wheat, and the judgment of the world up to this time is that the production of wheat is best promoted by private ownership in land. The same rule applies to the ownership of capital in other forms and to the production of other commodities. Society's first interest is in efficient production, and in the distribution of ownership chiefly as it affects production. As capital is accumulated, the methods of production improved and production increased, it is inevitable that there will be a broad elevation of the economic level upon which society lives, and that all men will have a better opportunity to share in the ownership of productive property.

The Problem of Taxation.

If this reasoning is correct the community should beware how it seizes for current use upon the capital which is certainly destined for the in-

dustrial fund. To a very great extent it must be done, but it is not to be done in the spirit of eager confiscation with which in some quarters it is advocated at the present time. It would be folly to seize it upon the theory that the public is really acquiring anything at the expense of the rich owner, for under no conceivable circumstances will the taxation encroach upon the portion of his income which is devoted to his own support. Indeed, the common argument for the seizing of large incomes is that it will involve no sacrifice to the owners. This is true; the sacrifice is from a fund destined to public use, and at the expense of society as a whole in the future.

There is one kind of taxation which is undoubtedly worse than that which would reduce the fund available for investment. This is taxation which would actually deprive people of the common necessities and comforts, and impair the health and efficiency of the population. This country does not require or desire taxation of this kind, and there is little danger that it will be imposed. But between the funds which are needed for necessities and the funds which are destined for industrial use there is a great flow of expenditures which may be tapped with the minimum effect upon the country. There is no necessity for extreme or revolutionary taxation. All classes are able to make some contribution and it is desirable that the taxation shall be met to an important degree by reasonable economies, so that the capital resources of the country will not be diminished and that after the war the losses of industrial capital will be made good. The manner of taxation is more important than the haste with which it is imposed. Taxes which bear upon luxuries may be advantageously maintained after the war, and the country can better afford to spread the taxation over a longer period than to heap it up excessively during a few years.

We have referred only to the industrial investment of large incomes, but there are other applications with which the public is familiar, which, while classed as benevolent, are scarcely less constructive and of no less public value. The men of large incomes are usually men gifted with vision and ability to use money in many ways so that far reaching benefits accrue to the public. Such plans and enterprises are outside the scope of governmental efforts, where the use of public funds may be impracticable, as setting precedents which ought not to be established. It is not desirable that the inclination of men of wealth to use their fortunes in such manner should be stopped by taxation deliberately planned to despoil them, and out of all proportion to that levied upon the rest of the community. Their money is bound to go to a public use in any event, and there may be great public gains in allowing them to act upon their own initiative in placing it.

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